



Programa de Fortalecimiento de las Microfinanzas Rurales (FOMIR/DAI) Quarterly Report

October - December 2002

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INTRODUCTION/BACKGROUND

INTRODUCTION

The Rural Financial Markets Activity (RFM) was designed to address one of the Intermediate Results under USAID/El Salvador's Strategic Objective No. 1—"Expanded Access and Economic Opportunity for Rural Families in Poverty"—which seeks to create income generating opportunities for the rural poor, thus contributing to the mitigation of the overall poverty in the country. The RFM's role is to expand and improve the availability of financial services to the rural poor.

USAID/El Salvador contracted Development Alternatives, Inc. (DAI) in November 1998¹ to implement the Rural Financial Markets Activity. The RFM (identified as the "Programa de Fortalecimiento de las Microfinanzas Rurales/FOMIR-DAI" or FOMIR/DAI) initiated activities in January 1999 with the arrival of the Chief of Party in El Salvador.

MAJOR RESULTS AREAS

The principal objectives of the RFM are to improve the performance and sustainability of selected microfinance institutions serving rural areas of the country, increase the outreach of micro credit services, and increase the availability of rural savings services. In July 2001, USAID amended DAI's contract to continue until September 31, 2003. The three major results areas defined for the RFM to be accomplished by the end of the fifth year, therefore, are to:

- Improve the degree of financial sustainability of six selected microfinance institutions and the operational sustainability of eight selected microfinance institutions;
- Increase the outreach of these institutions in rural areas by establishing at least 7 new branches that combined serve 20,000 new borrowers, and make at least 7,000 loans of \$400 or less; and
- Increase savings by at least \$400,000 among 4,000 poor rural clients, served by six secure savings institutions.

Included in these three major results areas, the RFM seeks to reduce delinquency rates to less than 10 percent and to help selected institutions gain access to commercial sources of funding to ensure their microfinance activities continue to exist and grow without reliance on donor funding after the termination of the project. A minimum of 5 nongovernmental organizations are to have access to commercial sources of funding by the end of year five.

The RFM supports the selected institutions by providing training, technical assistance and funding. This program of assistance is designed to improve their performance and capabilities, increase their service coverage, maintain healthy and dynamic loan portfolios, attain financial sustainability, and access new sources of commercial funds.

¹ Contract No. 519-C-00-99-00005-00.

ORGANIZATION OF THE REPORT

This report is the fourteenth progress report submitted for the project and covers the period from October 1, 2002, through December 31, 2002.² The report is divided into the following major sections:

- Results for the Quarter
- Progress Toward Accomplishment of Major Results Indicators
- Grantee Results for the Quarter
- Capitalization Fund
- Market Information Unit
- Information Technology Initiative
- Training Activity for the Quarter
- Consulting Activity for the Quarter
- Status of Partner Institutions and the Microfinance Industry in September 2003
- Financial and Administrative Information
- Counterpart Contribution
- Summary Table of Key Indicators for the Project

² The effective date of the contract was November 3, 1998. Start-up did not begin officially until contract signing on November 23. Target dates used throughout this report are rounded to the end of the month.

RESULTS FOR THE QUARTER

Summary of Quarterly Results October – December 2002		
	Planned	Actual
Total New Rural Borrowers:	20,000 Borrowers	29,093 Borrowers
Total New Loans Under \$400:	7,000 Loans	10,482 Loans
Total New Points of Service	7 Points of Service	43 Points of Service
Average Portfolio at Risk:	<10%	5.93% (weighted)
Operational Sustainable MFIs	8	8
Financial Sustainable MFIs	6	7
No of NGOs obtaining commercial bank funds	5	5
No. of Institutions with improved statutes	6	6
No. Saving Institutions serving rural clients	6	6
Number of Active Depositors	4,000	7,781
Growth in Savings Accounts	\$400,000	\$621,650.44

Accomplishments:

- Succeeded in reaching end of year five targets ahead of schedule in operational and financial sustainability, delinquency, outreach, and savings.
- Grantee institutions reported an increase of 7, 881 new rural clients during the quarter.
- The weighted-average for portfolio at risk more than 30 days among the 11 partner institutions dropped to 5.93%, an all time low for the project. Nine of the eleven institutions report arrears rate below 10%.
- Banco Salvadoreño expanded its microfinance portfolio by 59%.
- ASEI increased total outreach by 1,437 clients - 547 of which are new active rural clients.
- Total urban and rural portfolio for the 11 partner institution increased by 15% during the quarter to a year-end figure of \$94.1 million.
- As of the end of December, 94,326 clients are served by FOMIR/DAI's 11 partner institutions, 78% of total clients are rural. Over the life of the project, partner institutions have increased rural clients by 103% (as compared to a 3% decrease in urban clients for the 11 partner institutions).

Priority Activities for FOMIR Next Quarter:

Continue the process to transfer assets to FUSAI/ Integral, Adel Morazán/AMC, and Calpia. Process for transferring assets to the remaining six partner institutions is scheduled to begin in March. Two institutions, Banco Agrícola and Banco Salvadoreño, have no assets under the FOMIR/ DAI program.

Ensuring ACCOVI effectively implements its regularization plan to receive a license from the Superintendent of the Financial System under the Non-Bank Financial Intermediaries Law.

Remain on-track to complete of credit union software customization project including installation and development of IT maintenance capacity.

PROGRESS TOWARD ACCOMPLISHMENT OF MAJOR RESULTS

Indicators: December 31, 2002

It is common knowledge that in the microfinance industry, the number and efficiency of loan officers or promoters is major factor in an institution's ability to achieve outreach targets.

Partner MFI	Credit Officers Baseline	Credit Officers December 2002	Net Increase in Credit Officers	Clients per Credit Officer
ADEL/AMC	6	27	21	182
ASEI	8	33	25	202
CALPIA	84	115	31	328
CAM	78	99	21	193
FJND	9	27	18	123
FUSAI/Integral	8	76	68	204
Banco Agric.	0	17	17	101
Banco Sal.	2	33	31	60
Accovi	0	7	7	143
Acacu	0	6	6	155
Acacsemersa	0	6	6	216
Total	195	446	251	Average: 173

FOMIR support has resulted in the hiring and training of 251 new credit officers (both urban and rural) for the 11 partner institutions. Growth in the number of loan officers servicing the sector has been critical to achievement of outreach targets.

The following tables provide consolidated results for the end of the first quarter – FY 2003 for new active rural borrowers.

Rural Clients		Rural Active Loans		
Institution	Baseline*	To 12/31/02	Women Borrowers	Change
Adel Morazán	1,368	4,906	2,966	3,538
Financiera Calpiá	0	8,053	1,574	8,053
Fundación Duarte	0	1,675	1,364	1,675
ASEI	860	3,869	3,150	3,009
FUSAI	617	9,448	7,048	8,831
CAM	15,504	13,742	11,278	(1,762)
Banco Agrícola	0	1,389	1,022	1,389
Banco Salvadoreño	103	1,228	1,028	1,125
ACACSEMERSA	0	1,301	876	1,301
ACACU	0	931	582	931
ACCOVI	0	1,003	663	1,003
Totals	18,452	47,545	31,551	29,093

FOMIR/DAI's year-end target for FY 2003 is 20,000 new rural active borrowers. At the end of the first quarter (fiscal year), FOMIR-assisted microfinance institutions (MFIs) currently have 47,545 active rural borrowers or 29,093 new active rural borrowers. This represents a

158% increase over the baseline. At this point, FOMIR has exceeded the year-end target of 20,000 for increased number of rural active borrowers by 9,093. Women constitute 31,551 or 66.36% of the rural active clients.

Supply of credit to rural clients increased by nearly 20% during the quarter up from the 7.4% increase reported in the previous quarter. The growth in new active rural clients of 7,881 includes 4,570 clients who have accessed Calpia's new agriculture/microfinance products during the year.

During the year, FOMIR has been assisting Financiera Calpia with technical assistance provided by Frontier Finance to help develop and launch new products targeted to rural families who generate their income from farm related and other microfinance activities. As a result of FOMIR/USAID support that began in January 2002, Calpia has introduced a new product line that has expanded outreach by 4570 clients and expanded its agriculture - microfinance portfolio by \$3.27 million dollars. FOMIR and USAID agreed that as of December 2002, FOMIR will report the growth in number Calpia's clients accessing the rural product line in all of its agencies. The baseline for the rural product line was established at the beginning of January 2002, when FOMIR assistance to develop this product line began. In incremental change in clients who access this product line from the 16 branches will be added to the total credit clients served in the Ahuachapan and Metapan branches. For the outreach indicator on saving, FOMIR also only collects data from the two branches as FOMIR provided financial support to Calpia to establish these branches in 1999 and 2000.

Rural Clients	Rural Active Borrowers		
Institution	To 09/30/02	To 12/31/02	Change
Adel Morazán	4,250	4,906	656
Financiera Calpiá	3,411	8,053	4,642
Fundación Duarte	1,606	1,675	69
ASEI	3,322	3,869	547
FUSAI	9,194	9,448	254
CAM	12,945	13,742	797
Banco Agrícola	1,344	1,389	45
Banco Salvadoreño	981	1,228	247
ACACSEMERSA	1,116	1,301	185
ACACU	804	931	127
ACCOVI	691	1,003	312
	39,664	47,545	7,881

In terms of rural loans disbursed for amounts of less than \$400, grantee institutions registered 25,891 loans as of December 31, 2002. The net increase in rural active loans below \$400 is 10,894 surpassing the end of year five target of 7,000 ahead of schedule.

Rural Loans of \$400 or Less			
Institution	Baseline*	To 12/31/2002	Change
Adel Morazán	349	1,847	1,498
Financiera Calpiá	0	1,738	1,738
Fundación Duarte	0	1,119	1,119
ASEI	889	3,733	2,844
FUSAI	56	4,138	4,082
CAM	14,115	11,406	(2,709)
Banco Agrícola	0	428	428
Banco Salvadoreño	0	582	582
ACACSEMERSA	0	485	485
ACACU	0	159	159
ACCOVI	0	256	256
	15,409	25,891	10,482

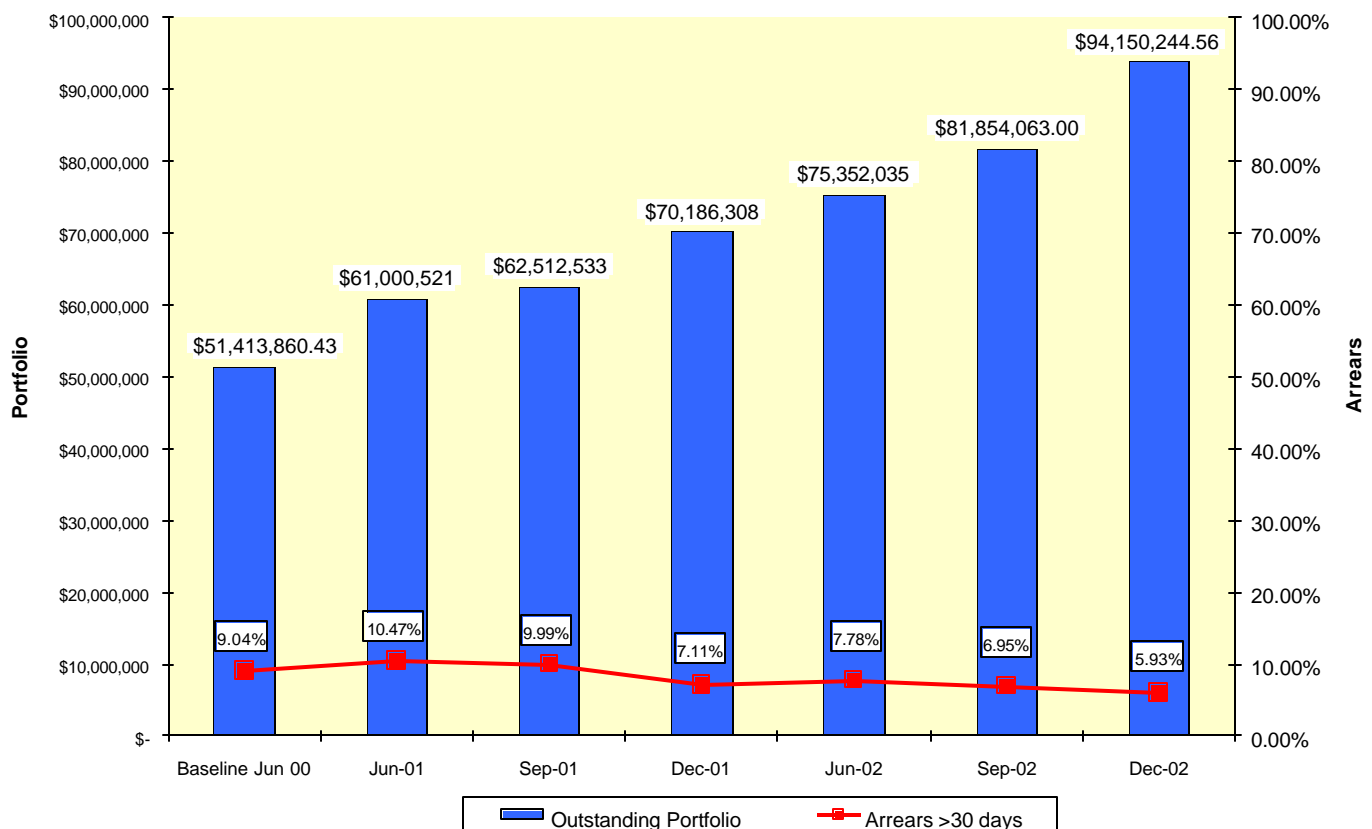
Rural Loans of \$400 or Less							
Institution	To 09/30/2002	To 12/31/2002	Change	Total Women to 09/30/2002		Total Women to 12/31/2002	
Adel Morazán	1,523	1,847	324	1,013	66.51%	1,210	65.51%
Financiera Calpiá	1,683	1,738	55	665	39.51%	716	41.20%
Fundación Duarte	982	1,119	137	834	84.93%	943	84.27%
ASEI	3,260	3,733	473	2,599	79.72%	3,031	81.19%
FUSAI	3,716	4,138	422	3,128	84.18%	3,442	83.18%
CAM	10,505	11,406	901	8,667	82.50%	9,360	82.06%
Banco Agrícola	429	428	(1)	331	77.16%	351	82.01%
Banco Salvadoreño	484	582	98	426	88.02%	515	88.49%
Acacsemersa	444	485	41	308	69.37%	353	72.78%
Acacu	122	159	37	91	74.59%	126	79.25%
Accovi	255	256	1	211	0.00%	217	84.77%
	23,403	25,891	2,488	18,273	78.08%	20,264	78.27%

Worth note is the fact that women receive 66% of all rural microfinance loans reported by FOMIR partner institutions. They benefit from a higher percentage of loans (78%) below \$400.

Rural Active Depositors **							
Institution	To 09/30/2002	To 12/31/2002	Change	Total Women to 09/30/2002		Total Women to 12/31/2002	
Financiera Calpiá****	1,602	1,759	157	929	57.99%	1,029	58.50%
Banco Agrícola	1,241	1,739	498	901	72.60%	398	22.89%
Banco Salvadoreño***	1,521	1,215	(306)	1,244	0.00%	926	76.21%
Acacsemersa	1,091	1,271	180	794	72.78%	855	67.27%
Acacu	706	775	69	440	62.32%	499	64.39%
Accovi***	693	1,022	329	503	0.00%	669	65.46%
	6,854	7,781	927	4,811	61.83%	4,376	56.24%

In terms of overall urban and rural portfolio, the 11 MFI's served by the project reported a 15% increase in total portfolio during the quarter bring the total amount of credit outstanding to \$94.2 million. Financiera Calpia's portfolio increase of \$6.9 million accounted for 57% of the growth in total portfolio of the 11 institutions. Today, 94,326 clients are served by FOMIR/DAI's 11 partner institutions, 78% of total clients are rural. Over the life of the project, partner institutions have increased rural clients by 103% (as compared to a 3% decrease in urban clients for the 11 partner institutions). During the same period, arrears less than 30 days (based on weighted average) declined to a project low of 5.93%.

Arrears and Portfolio Monitoring to December 2002



Results against each outreach indicator are presented in the table below.

RESULTS: INCREASED OUTREACH BY QUARTER

Target Indicator	Year Five Targets	Year Four First Quarter	Comments
No. of new branches/agencies serving rural clients	7	43	<ul style="list-style-type: none"> (4) CALPIA opened a new agency in Ahuachapán in 1999, Metapán in March 2000, and Cara Sucia and San Juan Opico in 2001. (1) CAM opened a new agency in Zacatecoluca in 2000. (6) ADEL Morazán opened new branches in Ciudad Barrios in 1999 and in Santa Rosa in 2000. (2) ASEI opened branches in Santa Ana and Cojutepeque (12) Banco Agrícola commenced microfinance lending in 11 rural branches in 2000 and 1 branch in Chalatenango in 2001. (13) Banco Salvadoreño increase microfinance lending to 10 branches during the last quarter. (2) FJND opened new agencies in Santa Ana and San Miguel in 1999. (2) FUSAI opened branches in Ahuachapán and Colon in 2002 (1) ACACSEMERSA opened a branch in Chalchuapa in December 2002.
No. of NGOs obtaining commercial bank funds	5	5	<ul style="list-style-type: none"> CAM has access to and use of commercial bank financing. ASEI, ADEL, FUSAI and FJND have obtained commercial bank financing through a capitalization mechanism.
No. of new active rural borrowers	20,000	29,093	<ul style="list-style-type: none"> See table above.
No. of new rural loans of \$400 or less	7,000	10,482	<ul style="list-style-type: none"> See table above.
Savings			
No. of secure savings institutions offering services to rural clients	6	6	<ul style="list-style-type: none"> CALPIA offers savings in rural areas. Banco Agrícola and Banco Salvadoreño offer savings in rural areas to clients in their microfinance portfolios. ACACU, ACOVI, and ACACSEMERSA all offer savings.
No. of active depositors	4,000	7,781	This represents CALPIA's number of rural savers in two agencies receiving direct assistance from FOMIR and the number of increased borrowers in Banco Agrícola, Banco Salvadoreño, and the CU's as a result of the microlending program.
Growth in savings accounts (in U.S \$)	\$400,000	\$621,650.44	As reported by CALPIA in two agencies and Banco Agrícola, Acacsemersa, Acacu and Accovi for saving amounts of new active rural borrowers.

RESULTS: SUSTAINABILITY INDICATORS

FOMIR measures financial sustainability by the ability of the organization to collect sufficient revenues from clients to cover the full opportunity cost of its activities, including financing at commercial rates. A financial institution whose revenues cover all of its operational costs but not its financial costs is considered to be operating at operational sustainability.

The table on the following page provides information on the sustainability and portfolio risk management indicators for FOMIR grantees.

Target Indicators	Targets End of Year Five	Year Five First Quarter Actual	Comments
No. of institutions that are operationally sustainable	8	8	<ul style="list-style-type: none"> • ASEI reports operational sustainability ratio of 82.71% as of 12/31/02. • CALPIA reports operational sustainability ratio of 99.07% as of 12/31/02. • FJND reports operational sustainability ratio of 81.41% as of 12/31/02. • ACACU reports operational sustainability of 117.79% as of 12/31/02. • ACACSEMERSA reports operational sustainability of 116.43% as of 12/31/02. • CAM reports operational sustainability of 127.81% as of 12/31/02. • FUSAI reports operational sustainability of 100.89% as of 12/31/02. • ACCOVI reports operational sustainability of 111.29% as of 12/31/02. • ADEL reports operational sustainability of 104.06% as of 12/31/02. • Banco Agrícola and Banco Salvadoreño are operationally sustainable.
No. of financially sustainable institutions	7	7	<ul style="list-style-type: none"> • ASEI reports financial sustainability of 81.29% as of 12/31/02. • CALPIA reports financial sustainability of 91.64% as of 12/31/02. • FJND reports financial sustainability of 70.35% as of 12/31/02. • CAM reports financial sustainability of 122.67% as of 12/31/02. • ACACSEMERSA reports financial sustainability of 114.81% as of 12/31/02. • ACACU reports financial sustainability of 117.16% as of 12/31/02. • FUSAI reports financial sustainability of 79.26% as of 12/31/02. • ACCOVI reports financial sustainability of 110.92% as of 12/31/02. • ADEL reports financial sustainability of 100.50% as of 12/31/02. • Banco Agrícola and Banco Salvadoreño report financially sustainable in their microfinance product line.
% of portfolios more than 30 days past due	<10%	<ul style="list-style-type: none"> • 6.59% • 2.20% • 6.89% • 7.20% • 9.63% • 3.70% • 6.00% • 2.09% • 5.97% • 10.21% • 15.22% 	<ul style="list-style-type: none"> • ADEL • CALPIA • FUSAI • ASEI • FJND • CAM • Banco Agrícola (only MF line) • Banco Salvadoreño (only MF line) • ACACSEMERSA • ACACU • ACCOVI
No. of improved statutes of financial institutions	6	6	<ul style="list-style-type: none"> • ADEL Morazán separated its microfinance program from its other activities and registered AMC as a savings and credit society. • FUSAI has separated credit operations, acquired new portfolio, and modified its credit technology. They have also registered Integral as a finance company. • FJND has improved financial management capacity, reporting, and has begun to allow men in rural areas to access loans. • ASEI created a new organizational structure including the creation of a board finance committee, reorganization of the finance and administrative function, and strengthening of credit operations. • ACCOVI's plan to comply with regulation requirements was accepted by the superintendent. • Banco Salvadoreño has adopted new microfinance product line management structures with additional coordinators and incentives scheme.

GEOGRAPHIC DISTRIBUTION OF BRANCHES AND AGENCIES

The map on the following page displays the current geographic location of rural branches and agencies of the 11 FOMIR supported institutions. Forty-three points of service have been added as a result of project activity to date.

GRANTEE RESULTS

AMC LTD. (ADEL MORAZAN)

AMC had a net growth of 660 clients and added \$136,232 in outstanding portfolio, during the quarter. Portfolio at risk over 30 days declined during the quarter to 6.59%.

Summary of Portfolio Growth

<i>Outreach Results</i> As of December 31, 2002	ACTUAL	Projected	Percentage of Target
Rural Active Borrowers	4,906	4,350	113%
Total Active Borrower	4,906	4,350	113%
Rural Active loans ≤ \$400	1,847	1,653	112%
Points of Service in Rural Areas	7 (*)	6	116.67%
Number of Loan Officers	27	17	159%
Clients Per Loan Officers	182	256	71%

(*) Includes the office in Corinto that operates as a point of service for clients but is not a full-fledged branch.

Summary Statement of Portfolio Management and Quality

<i>Portfolio Growth</i> Quarterly Trends	December 2001	March 2002	June 2002	September 2002	December 2002
Total Portfolio \$	1,943,700	2,301,100	2,405,127	2,640,391	2,776,623
Total Active Loans	3,158	3,800	3,639	4,424	5,004

<i>Portfolio Quality</i> Quarterly Trends	December 2001	March 2002	June 2002	September 2002	December 2002
Portfolio at Risk > 30 days	8.34%	12.00%	7.24%	7.42%	6.59%
Portfolio at Risk > 90 Days	3.48%	5.01%	3.73%	4.07%	3.63%

<i>Sustainability</i> Quarterly Trends	December 2001	March 2002	June 2002	September 2002	December 2002
Operational Sustainability	115.42	148.00%	107.58%	102.60%	104.06%
Financial Sustainability	95.03	117.00%	107.58%	99.75%	100.50%

Summary of FOMIR/DAI Activities for the Quarter

- The GER product line (Rural Solidarity Groups) pilot program expanded during the quarter in accordance with the recommendations and support given by FOMIR;
- Gustavo Quiñonez was hired to execute a financial projections study in relation to the capitalization fund mechanism;
- FOMIR supported and provided advised to AMC during the creation of AMC's five year strategic plan;
- FOMIR procured software needed by ADEL according to the recommendations and plan developed by the IT Senior Advisor working with FOMIR. Software included: Windows 2000 server, Oracle database, Star Office, and Norton Antivirus.

Key Activities for the Next Quarter

- FOMIR will continue to support and advise the GER (solidarity group) product line from its pilot program stage to a institution-wide program;
- FOMIR will provide support in increasing the scope and content of the IT manual related to security of information systems;
- FOMIR will develop terms of reference for STTA to assist AMC in defining systems and procedural upgrades;
- FOMIR will take appropriate action on USAID decision to transfer assets awarded under the grant.

ASOCIACION SALVADORENA DE EXTENSIONISTAS EMPRESARIALES DEL INCAE - (ASEI)

The impact of restructuring and reorganizing the institution, and its finance and credit management demonstrated dramatic results in terms of client outreach and portfolio growth. During the quarter, ASEI increased total outreach by 1,437 clients, (547 new active rural clients) and total portfolio by almost \$235,000 dollars, while showing a decline in portfolio at risk from 9.77% to 7.20%.

Summary Statement of Portfolio Growth, Management and Quality

<i>Outreach Results</i> As of December 31, 2002	Actual	Projected	Percentage of Target
Rural Active Borrowers	3,869	3,445	112%
Total Active Borrowers	6,671	5,434	123%
Rural Active loans ≤ \$400	3,733	3,307	113%
Points of Service in Rural Areas	3	4	75%
Number of Loan Officers	33	25	132%
Clients Per Loan Officers	202	181	112%

Summary of Sustainability or Profitability Indicators

<i>Portfolio Growth</i> Quarterly Trends	December 2001	March 2002	June 2002	September 2002	December 2002
Total Portfolio \$	\$468,251	\$362,961	\$362,035	\$392,088	\$627,413
Total Active Loans	4,845	4,755	5,104	5,318	6,760

<i>Portfolio Quality</i> Quarterly Trends	December 2001	March 2002	June 2002	September 2002	December 2002
Portfolio at Risk > 30 days	5.39%	11.48%	9.51%	9.77%	7.20%
Portfolio at Risk > 90 Days	3.30%	5.19%	4.93%	6.18%	4.65%

As anticipated, this rapid growth was accompanied with increased operating expenses causing a short-term decline in profitability.

<i>Sustainability</i> Quarterly Trends	December 2001	March 2002	June 2001	September 2002	December 2002
Operational Sustainability	120.43%	136.31%	124.11%	90.12%	82.71%
Financial Sustainability	109.53%	125.46%	112.03%	89.78%	79.28%

Summary of FOMIR/DAI Activities for the Past Quarter

- Monitored ASEI's effort for growth in portfolio and number of rural clients during the quarter, after a long period of consolidating the organization and strengthening credit management;
- Initiated the process of collaborating with ASEI in their request to support the evaluation and consolidation of the possible fusion process with Enlace;
- ASEI's with FOMIR advise upgraded the physical installations of branches and moved central office to a more adequate location;
- Provided computer equipment and assisted in its configuration;
- Reviewed and revised the marketing plan developed with the support of Katalysis, Guatemala.

Issues Going Forward

- FOMIR will continue to support ASEI's portfolio growth and expansion while maintaining quality;
- FOMIR will provide support in consolidating the fusion process with ENLACE if there is an agreement between the interested parties.
- Should ASEI decide not to merge with ENLASE, FOMIR will review ASEI's strategy for future growth and expansion.

FINACIERA CALPIA

FOMIR/DAI has been working with Financiera CALPIA since the "Convenio de Cooperacion Técnico Financiera" was signed in August 1999. During the previous year, FOMIR has been assisting Financiera Calpia with technical assistance provided by Frontier Finance to help develop and launch new products targeted to rural families who generate their income from farm related and other microfinance activities. As a result of FOMIR/USAID support that began in January 2002, Calpia has introduced a new product line that has expanded outreach by 4570 clients and expanded its agriculture/microfinance portfolio by \$3.27 million dollars.

During the last quarter, Calpia grew its overall portfolio by \$6.95 million dollars (a 18% increase). In addition it registered a total of 8,053 new active rural clients, and continued to lower its portfolio at risk for more than 30 days to 2.20%.

Summary of Outreach Indicators

<i>Outreach Results As of December 31, 2002</i>	Actual	Projected	Percentage of Target
Rural Active Borrowers	8,053*	3,576	225%
Total Active Borrowers	37,771	38,000	99%
Rural Active loans ≤ \$400	1,783	N/A	N/A
Points of Service in Rural Areas	11	11	100%
Number of Loan Officers	115	114	101%
Clients Per Loan Officers	328	333	98%

FOMIR and USAID agreed that as of December 2002, FOMIR will report the growth in number Calpia's clients accessing the rural product line in all of its agencies. The baseline for the rural product line was established at the beginning of January 2002, when FOMIR assistance to develop this product line began. In incremental change in clients who access this product line from the 16 branches will be added to the total credit clients served in the Ahuachapan and Metapan branches. For the outreach indicator on saving, FOMIR also only collects data from the two branches as FOMIR provided financial support to Calpia to establish these branches in 1999.

Summary Statement of Portfolio Management and Quality

<i>Portfolio Quality Quarterly Trends</i>	December 2001	March 2002	June 2002	September 2002	December 2002
Total Portfolio US\$	31,567,647	31,909,422	35,214,093	38,667,502	45,618,700
Total Active Loans	32,765	31,941	35,380	42,077	42,820

<i>Portfolio Quality Quarterly Trends</i>	December 2001	March 2002	June 2002	September 2002	December 2002
Portfolio at Risk > 30 days	3.0%	3.4%	3.1%	2.76%	2.20%
Portfolio at Risk > 90 Days	2.6%	2.3%	2.6%	2.25%	1.62%

<i>Sustainability Quarterly Trends</i>	December 2001	March 2002	June 2002	September 2002	December 2002
Operational Sustainability	120%	126%	95.67%	95.75%	99.07%
Financial Sustainability	105%	103%	89.01%	87.46%	91.64%

Summary of FOMIR/DAI Activities for the Quarter

- Monitored progress by Frontier Finance in rural/agriculture product design and implementation including the preparation of an update review.

Key Activities for the Next Quarter

- FOMIR will continue to support Calpia's rural ag/microenterprise portfolio growth and expansion while maintaining quality;
- Provided with USAID approval to extend the end date of the Convenio, FOMIR will monitor STTA provided through sub-contractor Frontier Finance to institutionalize the rural agriculture product.
- FOMIR will also provide training to middle level managers of the institution.

CENTRO DE APOYO A LA MICROEMPRESA - (CAM)

Since early 2002 the project has focussed on product line development, management capacity, organizational structure and institutional set-up. CAM is well on the way to repositioning itself in the market with an improved approach to its existing individual product and the launch of a new solidarity product latter this year. New senior management has energetically confronted CAM's challenges and is responsible for many of the positive initiatives undertaken over the last 6-12 months. Existing middle management has been strengthened with new recruits and participation in FOMIR arranged middle management courses. FINCA acknowledges that CAM's institutional status will have to be reviewed in the near future. However, in the short to medium term the institution will remain as an NGO.

The following remain important issues that CAM/FINCA need to address in the future.

- Whether village banking will or can remain the primary focus of the business.
- How will CAM's institutional status need to change in order to develop financial sustainability, improve services and confront competition.
- Does the existing flat management structure adequately cater for the new demands on CAM re more aggressive marketplace, more professional sector and administration of a multi-product institution?
- Can existing middle management structures and abilities absorb the changes being implemented and/or implement them?
- Will the new systems initiatives to mechanize manual processes and bring the branch network online be sufficient to improve CAM's applied management requirements such as accurate reporting, client service levels and financial security?

CAM has successfully reversed the yearlong trend of declining number of clients falling trend with a net increase of 797 clients in the last quarter of the calendar year. CAM finished the year with 19,198 total clients at the end of December reflects a 2% increase for the year. Rural clients grew from 12,945 to 13,742 during the past quarter, representing an increase of 6.16% in rural clients. Overall portfolio grew by more than \$ 1.12 million while portfolio at risk declined during the quarter.

Summary of Outreach Indicators

<i>Outreach Results</i> As of December 31, 2002	Actual	Projected	Percentage of Target
Rural Active Borrowers	13,742	15,500	89%
Total Active Borrowers	19,198	21,253	90%
Rural Active loans ≤ \$400	11,406	13,317	86%
Points of Service Rural Areas	5	5	100%
Number of Loan Officers	99	100	99%
Clients Per Loan Officers	193	223	87%

Summary Statement of Portfolio Management and Quality

<i>Portfolio Quality</i> Quarterly Trends	December 2001	March 2002	June 2002	September 2002	December 2002
Total Portfolio \$,000	3,966	3,536	2,951	3,144	4,272
Total Active Loans	19,283	18,452	18,104	17,998	19,775

<i>Portfolio Quality</i> Quarterly Trends	December 2001	March 2002	June 2002	September 2002	December 2002
Portfolio at Risk > 30 days	4.7%	4.8%	4.9%	3.9%	3.7%
Portfolio at Risk > 90 Days	0.7%	1.3%	2.8%	2.4%	1.4%

<i>Sustainability</i> Quarterly Trends	December 2001	March 2002	June 2002	September 2002	December 2003
Operational Sustainability	150.5%	149%	145%	131.46%	127.81%
Financial Sustainability	142.5%	146%	142%	131.23%	122.67%

Summary of FOMIR/DAI Activities for the Quarter

- Aggressive and often-confrontational FOMIR assistance provided in previous quarters related to management structure and product promotion to show positive results in terms of client growth. These efforts resulted in hiring and training new group formation officers; expanding the product range to increase client retention; stronger field management; and, cleaning of client data bases to provide a more accurate gauge of the client situation.
- During the last quarter, FOMIR assisted CAM in evaluating, procuring and installing a software to manage human resources that was integrated into their operative software. It is important to note that this software is not only for payroll management. This software will allow CAM to have a better management of their high number of personnel including credit promoters and other credit personnel.
- Executed training of credit officers and supervisors working with solidarity groups and individual credit products. The training concentrated on credit analysis.
- The Information Technology Coordinator received through FOMIR training on Microsoft Windows 2000, in order to better administer CAM's network.

Key Activities for the Next Quarter

- FOMIR will continue training of credit officers and supervisors working with solidarity groups and individual credit products. Training will be practical, on the job-training, to complement the theoretical training already executed;
- FOMIR will monitor and support efforts for healthy portfolio growth and compliance with institutional goals in this area;
- FOMIR will provide on-the-job training to IT coordinator.

FUNDACIÓN JOSÉ NAPOLEÓN DUARTE (FJND)

Having established a stronger management base, FJND continues to move forward closing December with a total of 1,675 new active rural clients. FJND continued to lower arrears, reporting 9.63% in the portfolio at risk over 30 days. The institution refocused its efforts to concentrate on the subsistence microentrepreneur, disbursing loans for an average of \$163 in rural areas.

Summary of Portfolio Growth

<i>Outreach Results As of December 31, 2002</i>	Actual	Projected	Percentage of Target
Rural Active Borrowers	1,675	1,250	134%
Total Active Borrowers	3,256	3,300	99%
Rural Active loans ≤ \$400	1,119	1,200	93%
Points of Service in Rural Areas	2	3	67%
Number of Loan Officers	27	20	135%
Clients Per Loan Officer	123	165	75%

Summary Statement of Portfolio Management and Quality

<i>Portfolio Growth Quarterly Trends</i>	Dec 2001	March 2002	June 2002	September 2002	December 2002
Total Portfolio \$	998,000	986,700	1,058,010	1,183,629	1,192,330
Total Active Loans	2,299	2,374	2,634	3,371	3,312

<i>Portfolio Quality Quarterly Trends</i>	December 2001	March 2002	June 2002	September 2002	December 2002
Portfolio at Risk > 30 days	12.74%	18.18%	13.94%	12.98%	9.63%
Portfolio at Risk > 90Days	10.26%	12.14%	9.97%	8.91%	6.12%

Growth in portfolio over the last two quarters is resulting in higher coverage of operating costs. FJND is currently negotiating with BMI for additional lines of credit.

<i>Sustainability Quarterly Trends</i>	December 2001	March 2002	June 2001	September 2002	December 2002
Operational Sustainability	99%	86%	95.75%	75.87%	81.41%
Financial Sustainability	91%	79%	81.00%	71.29%	70.35%

Summary of FOMIR/DAI Activities for the Quarter

- Finalized assistance in credit and operations management by ACCION International Long Term Consultant Juan Carlos Diaz. As part of this assistance during the quarter the design for the new incentive system for credit officers was finalized and strategic planning sessions were executed with operating personnel and directors;
- Monitored compliance of provision creation plan agreed with FOMIR/DAI. By December 2002 the institution created provisions up to an amount that exceeds the target agreed for that date with FOMIR;
- During the quarter FJND withdrew the last available amount of the line of credit guaranteed with the capitalization fund, thereby using this mechanism to its full extent in expanding their rural portfolio;
- Supported the implementation of the MIS created in the agencies. This has had a direct impact in a better management of portfolio quality and other aspects of the credit operation.

Key Activities for Next Quarter

- Provide support in contacting additional sources of funds to finance portfolio growth;
- Continue supporting the effort to constantly improve portfolio quality, and the creation of an adequate level of provisions in compliance with the plan agreed with FOMIR;
- Finalize the implementation of the work plan agreed between FOMIR/DAI, FJND and Data Systems (Consulting firm), with respect to information systems. In addition, it is estimated that all the agencies will be intercommunicated by the end of January 2003.

FUSAI/INTEGRAL

Integral continued its consolidation process as El Salvador's second largest specialized microfinance institution in terms of credit portfolio. Several concrete actions were executed to strengthen operations management and efficiency. The institution registered a net increase of 254 new active rural clients during the quarter. Total outstanding portfolio increased by 24% while portfolio at risk over 30 days had a slight increase to 6.89%.

Summary of Portfolio Growth

<i>Outreach Results</i> As of December 31, 2002	Actual	Projected	Percentage of Target
Rural Active Borrowers	9,448	9,008	105%
Total Active Borrowers	15,560	15,000	104%
Rural Active loans \leq \$400	3,660	1,500	244%
Points of Service in Rural Areas	7	6	117%
Number of Loan Officers	76	50	152%
Clients Per Loan Officers	204	300	68%

Summary Statement of Portfolio Management and Quality

<i>Portfolio Growth</i> Quarterly Trends	December 2001	March 2002	June 2001	September 2002	December 2002
Total Portfolio \$	8,634,100	8,757,146	8,701,970	9,284,615	11,504,514
Total Active Loans	13,358	14,743	14,760	15,563	16,939

<i>Portfolio Quality</i> Quarterly Trends	December 2001	March 2002	June 2001	September 2002	December 2002
Portfolio at Risk > 30 days	5.88%	6.78%	7.58%	6.50%	6.89%
Portfolio at Risk > 90 Days	2.41%	2.78%	3.60%	3.08%	2.66%

<i>Sustainability</i> Quarterly Trends	December 2001	March 2002	June 2001	September 2002	December 2002
Operational Sustainability	105.51%	105.51%	95.42%	98.90%	101%
Financial Sustainability	85.80%	85.80%	73.11%	84.88%	79%

Summary of FOMIR/DAI Activities for the Past Quarter

- ACCION International's long term consultant Manuel Torres, continued assistance in credit as Business Manager of Integral.
- Supported the implementation of recommendations identified to strengthen operations management (including stronger internal control, accounting, and treasury management procedures;
- Supported creation of Internal Finance Committee to analyze different aspects of relationship with FUSAI (Portfolio in Administration, capital contribution, transfer of portfolio, etc.)
- Supported the implementation of a pilot program for a new housing individual loan product for subsistence micro entrepreneurs;
- FOMIR consultant Gustavo Quiñonez executed a financial projections study in relation to the capitalization fund mechanism;
- FOMIR provided advise on the plan for upgrade of branch communication and roll-out of new TOPAZ software in the agencies;

Key Activities for the Next Quarter

- Continue assistance in credit as Business Manager (ACCION International Long Term Consultant Manuel Torres);
- Continued advise and support in strengthening operations management;
- Support in continued training of credit officers and coordinators on credit technology (individual and solidarity groups);
- Support and advise in development of marketing plan for current high competition situation

BANCO AGRÍCOLA

During the quarter, Banco Agrícola's overall microfinance portfolio increased by \$145,000. Total loans increased during the quarter by 69 and active rural borrowers increased by 48. Microfinance was integrated into the larger Banca MyPE organization, which establishes a more permanent and larger organization for the microfinance operations within the bank.

Summary Statement of Portfolio Growth, Management and Quality

<i>Outreach Results As of December 31, 2002</i>	Actual	Projected	Percentage of Target
Rural Active Borrowers	1,584	1,696	93%
Total Active Borrowers	1,721	1,696	101%
Rural Active loans ≤ \$400	428	800	54%
Points of Service in Rural Areas	12	15	80%
Number of Loan Officers	17	23	74%
Clients Per Loan Officers	101	73	76%

<i>Portfolio Quarterly Trends</i>	December 2001	March 2002	June 2002	September 2002	December 2002
Total Portfolio \$	951,460	1,019,710	1,054,229	1,087,189	1,232,201
Total Active Loans	1,478	1,619	1,657	1,671	1,740

<i>Portfolio Quality Quarterly Trends</i>	September 2001	December 2001	March 2002	June 2002	December 2002
Portfolio at Risk > 30 days	2.27%	3.49%	5.74%	5.20%	6.0%
Portfolio at Risk > 90 Days	0.05%	0.67%	1.04%	1.99%	1.91%

Summary of FOMIR/DAI Activities for the Quarter

- Conducted ongoing discussions with the Bank regarding organizational options for Micro and Small Enterprise Banking (Banca MyPE). This included a visit from DAI Finance and Banking Practice Manager Robert Dressen who met with the Bank's vice President for Retail Banking, and Managers for Banca MyPE and a representative from the Bank's Branches Division. Options discussed included strengthening the existing department and profit center focus, with responsibilities for collections, lending and risk management concentrated in one manager. The second option discussed was the creation of a service company.
- Provided technical assistance to establish targets and design an incentive system for the coming year. Based on the data available, the consultancy focused on developing a plan to significantly improve portfolio quality and test a rewards program for lending and portfolio quality results.

Key Activities for the Next Quarter

- Improve the quality of the traditional micro and small enterprise portfolios and maintain the quality of microfinance portfolio.

- Set the stage for growth, using targets and an incentive system for loan officers.
- Focus on continued staff training, in collections and sales techniques and risk management.
- Identify and develop a computerized loan application and analysis system.

BANCO SALVADOREÑO

FOMIR assistance provided during the first three-quarters of 2002, showed positive results in the final quarter of the year. From September to December 2002, Banco Salvadoreño's microfinance portfolio increased 59% to \$ 1.593 million dollars. Rural active clients increased by 247 to 1,228. The portfolio at risk for > 30 and > 90 days continued to decline from 4.94% and 3.04% respectively in September to 2.09 % and 0.54 % in December 2002.

A comparison of results of December 2001 with December 2002 is informative. FOMIR is impressed not only with their progress, but also with the fact that the program managers and coordinators are managing the portfolio and the personnel with these numbers – an indicator of advancement.

Comparison of Year End	12/31/01	12/12/02	% change
Portfolio	\$842,530	\$1,593,890	+ 89%
Portfolio-at-risk > 30 days	6.56%	2.09%	- 4.47%
Total Clients	1,329	1,970	+ 48%

Although the portfolio did not grow in 2002 to \$2,000,000 as projected, it nevertheless increased at least 89%. The average outstanding loan was higher in December, 2002 (\$761) versus December, 2001 (\$634). Breakeven portfolio to cover all costs was calculated at \$1,860,000, indicating that break-even by mid-2003, given the bank's projected \$1.5 MM increase for next year.

The FOMIR introduced incentive program seems to be functioning well with Branch Managers and Microcredit Assistants now receiving incentives. The bank reports that the most difficult target to meet is the net increase in number of clients. Nevertheless, FOMIR has recommended that the bank not change that target as the minimum is only not to have your number of clients reduced – surely achievable.

During the quarter, Banco Salvadoreño responded to increased demand by microenterprise owners for housing loans. FOMIR believes that the housing product provides the bank with competitive advantage in the microenterprise market, satisfying the need for longer-term loans. With FOMIR assistance offered after the earthquake, the bank developed specific policies for this product targeted for microentrepreneurs including a term up 15 years for a loan, amounts determined based client repayment capacity, interest rate of 15% (higher than the normal housing line of the bank as it is targeted to a riskier sector), and flexibility in using the loan to buy a new or used house or to remodel an existing house. Demand and portfolio for this product showed a significant growth during the Oct-Dec quarter last year.

Summary Statement of Results

<i>Outreach Results As of December 31, 2002</i>	Actual	Projected	Percentage of Target
Rural Active Borrowers	1,228	1,293	95%
Total Active Borrowers	1,970	2,200	90%
Rural Active loans \leq \$400	582	N/A	N/A
Points of Service in Rural Areas	16	8	200%
Number of Loan Officers	33	22	150%
Clients Per Loan Officers	60	100	46%

Summary Statement of Portfolio Management and Quality

<i>Portfolio Quality Quarterly Trends</i>	December 2001	March 2002	June 2002	September 2002	December 2002
Total Portfolio US\$	842,000	832,180	931,200	1,000,030	1,593,890
Total Active Loans	1,247	1,321	1,382	1,528	1,970

<i>Portfolio Quality Quarterly Trends</i>	December 2001	March 2002	June 2002	September 2002	December 2002
Portfolio at Risk > 30 days	6.5%	7.8%	5.08%	4.94%	2.09%
Portfolio at Risk > 90 Days	4.1%	4.5%	1.31%	3.04%	0.54%

Summary of FOMIR/DAI Activities for the Quarter

- Monitored and analyzed with programs top executives, actual and future productivity indicators for credit officers and overall program. As part of this analysis, elements closely related to productivity were evaluated, including the incentive system adopted by the bank for credit officers. Productivity has been FOMIR's main focus with the bank since several aspects related to policies, methodologies, and personnel are already in place with the purpose of a healthy expansion of the program.

Key Activities for the Next Quarter

- Continue close monitor, analysis, and development of strategies to increase programs productivity indicators in terms of outreach;
- Complement training of regional coordinators and selected credit officers by providing practical and theoretical training on aspects related to supervision and portfolio administration;
- Analyze with programs management and staff market conditions, competition and products offered with the purpose of implementing strategies to further increase the programs market penetration

ACACSEMERSA

During the quarter, ACACSEMERSA continue to expand its microfinance portfolio adding 185 addition new rural clients bringing the total number of new active rural clients to 1,301. Also they inaugurated a new point of service in Chalchuapa. Portfolio at risk more than 30 days declined to 5.97%.

Summary Statement of Results

<i>Outreach Results</i> As of December 31, 2001	Actual	Projected	Percentage of Target
Rural Active Borrowers	1,301	1,200	108%
Total Active Borrowers	1,301	1,200	108%
Rural Active loans ≤ \$400	485	400	121%
Points of Service in Rural Areas	2	1	100%
Number of Loan Officers	6*	8	75%
Clients Per Loan Officers	216	150	144%

***Small & Microenterprise officers**

Summary Statement of Portfolio Management and Quality

<i>Portfolio Quality</i> Quarterly Trends	December 2001	March 2002	June 2002	September 2002	December 2002
Total Portfolio \$	2,455,651	2,526,385	2,572,823	2,559,082	2,673,216
Total Active Loans	2,183	2,240	2,265	1,996	2,387

<i>Portfolio Quality</i> Quarterly Trends	December 2001	March 2002	June 2002	September 2002	December 2002
Portfolio at Risk > 30 days	8.77%	7.83%	6.95%	6.24%	5.97%
Portfolio at Risk > 90 Days	6.87%	6.0%	5.0%	4.30%	4.13%

Sustainability Quarterly Trends	December 2001	January 2002	June 2002	September 2002	December 2002
Operational Sustainability	100.45%	104.97%	107.58	106.17%	116.43%
Financial Sustainability	97.91%	80.66%	107.58%	105.64	114.81%

Summary of FOMIR/DAI Activities for the Quarter

- Conducted practical on the job training in several aspects of microcredit technology for two new credit officers hired to attend the Metapan and Chalchuapa locations. Training included promotion, analysis and collection.
- Worked with credit coordinator on developing and implementing elements related to the supervision and training of credit officers.
- Delivered a two-day seminar in aspects related to team building, motivation and achievement of goals with all the members of ACACSEMERSA's operating personnel and directors.

- Provided liaison between ACACSEMERSA and other institutions such as other commercial banks, BMI, and other credit unions as potential providers of funds for lending to finance ACACSEMERSA's growth;

Key Activities for Next Quarter

- ACACSEMERSA needs additional capital to finance the growth in its credit portfolio in the upcoming quarters. Growth and the competitive market for deposits that currently exists have resulted in a need for additional liquidity. FOMIR will provide training and technical assistance on best practices, strategies and marketing of deposits, and provide support in establishing relations with commercial and other sources of funds such as commercial banks, BMI and others.
- FOMIR will provide on-the-job training in the monitoring of progress and expansion of the newly created point of service in Chalchuapa.
- FOMIR will provide on-the-job training in the monitoring of progress and expansion of the two other locations being served outside of Santa Ana: Metapan and Ciudad Arce. During the next quarter, one of these locations will be designated for the establishment of a point of service.

ACACU

During the quarter, ACACU continued to expand its microfinance portfolio by adding 120 new rural active clients bringing the total number of active rural clients to 931. Portfolio at risk more than 30 days continued its downward trend from 13% at September 30 to 10.21% at the end of December.

Summary Statement of Results

<i>Outreach Results As of December 31, 2002</i>	Actual	Projected	Percentage of Target
Rural Active Borrowers	931	900	103%
Total Active Borrowers	939	900	104%
Rural Active loans \leq \$400	159	225	71%
Points of Service in Rural Areas	3	4	75%
Number of Loan Officers	6*	8	75%
Clients Per Loan Officers	155	113	138%

*Small & Microenterprise officers

Summary Statement of Portfolio Management and Quality:

<i>Portfolio Quality Quarterly Trends</i>	December 2001	March 2002	June 2002	September 2002	December 2002
Total Portfolio \$	5,954,342	6,831,680	7,768,570	7,947,433	8,200,382
Total Active Loans	3,301	3,700	3,984	4,123	4,189

<i>Portfolio Quality</i> Quarterly Trends	February 2002	June 2002	September 2002	December 2002
Portfolio at Risk > 30 days	16.4%	14%	13%	10.21%
Portfolio at Risk > 90 Days	10.4%	8.03%	7.45%	7.20%

<i>Sustainability</i> Quarterly Trends	December 2001	March 2002	June 2002	September 2002	December 2002
Operational Sustainability	119.62%	116.15%	117.38%	119.25%	117.79%
Financial Sustainability	118.07%	105.22%	117.38%	118.91%	117.16%

Summary of FOMIR/DAI Activities for the Quarter

- FOMIR provided training for members of Credit & Mora committees (branch and central agency level) to introduce and reinforce aspects related to the analysis of cases and administration of these committees. It is important to note that since similar introductory courses have been executed in the past. The training conducted in this quarter was used to reinforce concepts and introduce other more advanced methodologies.
- Provided on-the-job training to the recently appointed credit coordinator to reinforce in a practical way several aspects related to supervision and control of credit officers and the overall credit operation.
- Developed and introduced several new elements related to the supervision and control of credit operation including weekly activity reports for use by credit officers and monthly reports on productivity and goal compliance to be used by the credit coordinator;
- Provided support in promotional efforts for microcredit product line for the San Miguel branch in an effort to increase outreach to microentrepreneurs in this location.

Key Activities for Next Quarter

- FOMIR will implement a market study to provide information necessary to decide on whether or no to open a new point of service in San Francisco Gotera, Morazan. By serving San Francisco Gotera, ACACU, would have presence in the four Departments of the eastern region of the country. (La Union, San Miguel, Morazan and Usulután);
- Expansion and refurbishment of the agency in San Miguel Agency to attend the growing number of microfinance clients seeking financial services from ACACU in this location;
- Support in the selection, induction and training of new credit officers hired by ACACU during the next quarter. Due to the existing demand for microfinance credit products in some locations, like San Miguel, the need for hiring new credit officers is apparent;
- Like ACACSEMERSA, ACACU is in need funds to finance the growth in its credit portfolio. To provide support in this area FOMIR will provide training and technical assistance on best practices, strategies and marketing of deposits; and,
- FOMIR provide support in establishing relations with commercial and other sources of funds such as commercial banks, BMI and others.

ACCOVI

During the quarter, ACCOVI continue to expand its microfinance portfolio by adding 312 new rural active clients, bringing the total number of active rural clients to 1,003. Portfolio at risk indicators continued on a slow downward trend and ACCOVI maintains operational and financial sustainability. These results have been achieved while in a process of institutional change as a result of the compliance with the new disciplines and requirements of the regulation process.

Summary Statement of Results

<i>Outreach Results</i> As of December 31, 2002	Actual	Projected	Percentage of Target
Rural Active Borrowers	1,003	900	111%
Total Active Borrowers	1,003	900	111%
Rural Active loans ≤ \$400	258	225	115%
Points of Service in Rural Areas	4	4	100%
Number of Loan Officers	7*	8	88%
Clients Per Loan Officers	143	175	82%

*Small & Microenterprise officers

Summary Statement of Portfolio Management and Quality

<i>Portfolio Quality</i> Quarterly Trends	December 2001	March 2002	June 2002	September 2002	December 2002
Total Portfolio \$	13,126,617	13,261,801	13,767,094	13,940,540	14,255,663*
Total Active Loans	4,289	4,333	4,500	4,750	4,754*

* Data includes verification and adjustment done in October 2002 as part of SSF revision

<i>Portfolio Quality</i> Quarterly Trends	December 2001	March 2002	June 2002	September 2002	December 2002
Portfolio at Risk > 30 days	18.48%	17.88%	18.06%	15.84%	15.22%
Portfolio at Risk > 90 Days	13.85%	14.42%	15.62%	13.38%	12.70%

<i>Sustainability</i> Quarterly Trends	December 2001	March 2002	June 2002	September 2002	December 2002
Operational Sustainability	118.52%	113.17%	124.93%	121.28%	111.29%
Financial Sustainability	117.03%	123.79%	124.93%	120.85%	110.92%

Summary of FOMIR/DAI Activities for the quarter

In October 2002, FOMIR/DAI in conjunction with ACCOVI's Management and Board developed and approved a comprehensive work plan to guide the institution and technical assistance team. This work plan drew from ACCOVI's regularization plan approved by the SSF, subsequent observations of the SSF, and input from FOMIR/DAI consultants' experience with the SSF and project management.

The essential elements of the work plan are:

- creation of a regularization plan committee;
- completion of NIT data required for the SSF's credit registry;
- portfolio classification and reserve requirements;
- development, approval and dissemination of several policy and procedures manuals;
- verification of data, development and delivery of reports for the SSF's credit registry;
- clean-up of accounting practices and account reconciliation;
- hiring staff for key management positions;
- development and implementation of an internal auditing plan;
- revision of the legal contracts ACCOVI issues clients for loans and deposits for compliance and approval by the SSF;
- development of a policy manual and tracking procedures for extraordinary assets;
- development of a compliance and tracking system for related lending and financial indicators such as capital adequacy; and,
- coordination with the development and implementation of the new software system to ensure compliance and approval by the SSF.

Following is a brief description of the progress to date in each of these areas.

Creation of a regularization plan committee. In October, ACCOVI's Management and Board of directors approved the work plan and named the President and General Manager of ACCOVI as the parties responsible for supervising work plan progress. FOMIR/DAI named Luis Lievano as the day-to-day coordinator of the plan and Robin Young as the overall project manager.

Completion of NIT data required for the SSF's credit registry. As of October, approximately 20 percent of ACCOVI's outstanding credits lacked the NIT identification number required by the SSF for its credit registry. Through a process of follow-up with clients, cross checking various sources including the SSF's and Treasury Department's (Ministerio de Hacienda) lists, ACCOVI was able to identify all but about 190 of the NITs and requested the SSF assign an identification number to these clients per their norms. ACCOVI also instituted a policy and process to ensure all future loans are registered with the corresponding NIT.

Portfolio classification and reserve requirements. With the SSF's announcement that it would conduct an on-site audit of ACCOVI's portfolio within a couple of weeks of initiating the comprehensive work plan, the initial focus turned to preparing loan files and other information for the SSF's visit scheduled for November 12. Although ACCOVI reports that portfolio quality had improved by the close of 2002, with portfolio at risk over 90 days at about 15%, FOMIR/DAI has renewed its focus to work with ACCOVI's management to conduct a portfolio review with an eye to write-offs and arrears management in order to clean-up the portfolio during the first quarter of 2003.

Development, approval and dissemination of several policy and procedures manuals. FOMIR/DAI began assisting ACCOVI in late 2001 to develop the Functions, Administration, Credit and Deposits Policy and Procedures Manuals for submission to the

SSF. During late 2002, FOMIR/DAI and ACCOVI placed a new focus on these manuals, completely revamping the credit and deposits manuals to ensure compliance with best practices and the SSF's and Banco Central de Reservas (BCR) norms. In addition, FOMIR/DAI consultants assisted ACCOVI to develop the Contingency Plan and Liquidity and Investment Policy Manual. All these manuals had been submitted to the SSF (and the deposits manual to the BCR) by the end of the quarter

Verification of data, development and delivery of reports for the SSF's credit registry. The FOMIR/DAI Coordinator has worked with ACCOVI's technology staff to develop the reports required to send to the SSF for their credit registry. In addition, he has conducted reviews on samples of loans to ensure data consistency. Finally, with the hiring and initiation of the internal auditor in January and the first tests on data for migration to the new software system, additional efforts are being placed on data quality and reports.

Clean up of accounting practices and account reconciliation. The tasks under this activity primarily are in response to the observations of the Chicas Alfaro accountants hired jointly by FOMIR and ACCOVI in mid 2002 to review accounting procedures and information in ACCOVI's branches. ACCOVI reports significant progress in responding to the reports' observations and recommendations including establishing petty cash accounts, locating and completing loan files (contracts, guarantees) and reconciling outstanding balances through 2001 and most of the 2002 accounts, and establishing a responsible accounting staff member and schedule for monthly reconciliations going forward. Work in this area is ongoing.

Hiring staff for key management positions. Both to comply with its regularization plan as approved by the SSF and to complete the basic management team required to manage the day-to-day operations of the organization, ACCOVI was required to hire several staff members. This included branch managers for the Cojutepeque and San Vicente Branches, the Finance and Administration Manager, the Operations Manager, the Internal Auditor and the Legal Manager. FOMIR/DAI consultant John Hallen, assisted by Luis Alfaro, led ACCOVI in a process to define competency job descriptions and develop a recruitment plan. FOMIR/DAI consultants assisted ACCOVI in the recruitment and interview process, although all hiring decisions were solely ACCOVI's responsibility. As of the end of December, all but the Legal Manager had been hired and began working (Internal Auditor to begin officially Jan. 2, 2003). In addition to assisting in the hiring process, ACCOVI's President and General Manager requested FOMIR/DAI provide ongoing assistance from Mr. Hallen to build the management team. This includes bi-weekly coaching sessions for each senior manager, monthly team building and communications workshops for the entire management team, and periodic workshops and meeting with each manager and his/her staff. This work will kick off in early 2003 with a series of interviews and a workshop to define ACCOVI's new organizational chart and the key responsibilities and relationships of senior management.

Development and implementation of an internal auditing plan. ACCOVI hired a new internal auditor who will officially report to work in January 2003. In preparation of her arrival and in accordance with their regularization plan, the new Auditor prepared an annual audit plan that

was reviewed by FOMIR/DAI consultants. This plan was submitted and approved by ACCOVI's Board and subsequently submitted to the SSF in December.

Revising the legal contracts ACCOVI issues clients for loans and deposits for compliance and approval by the SSF. In response to the SSF's observations regarding ACCOVI's loan contracts, the credit union revised its loan documents in conjunction with its lawyer. The new contracts were submitted and accepted by the SSF. The FOMIR/DAI consultant assisted in developing a tool to calculate the effective interest rate to be included in contracts.

Developing policy manual and tracking procedures for extraordinary assets. This activity is programmed to be developed during January 2003.

Compliance and tracking system for related lending and financial indicators such as capital adequacy. During the past quarter ACCOVI identified all related loans (employees, Board member and family members, etc.) and calculated and tracked the ratios to ensure compliance with the SSF's norms. In addition, these requirements have been incorporated into the new policy manual and software system to ensure ongoing tracking and compliance. Finally, all credit staff and credit committee members will be trained in these and other relevant norms.

Coordination with the development and implementation of the new software system to ensure compliance and approval by the SSF. FOMIR/DAI has established a complete and qualified team for the software customization project. To ensure the software meets the specific requirements of ACCOVI as a regulated institution, FOMIR/DAI has dedicated extra resources. These include the work of Claudia Ordoñez to review the credit module and provide additional requirements and testing, Luis Lievano to discuss and review the accounting and reporting requirements, and an additional programmer during January and February 2003, paid half by ACCOVI, to respond to the particular requirements of the SSF. In addition, FOMIR/DAI and ACCOVI have requested the SSF begin reviewing the system as the modules are completed in early 2003 rather than waiting to begin testing after the entire system is complete. Ms. Claramunt coordinates all these efforts.

In addition to this specific work plan, Mr. Lievano has provided general training to all of ACCOVI's staff, Board and Vigilance Committee on the Non-Bank Financial Intermediaries Law and has developed a training program for credit staff on norms for credit operations. He also has been instrumental in developing a participatory approach to building the management team and developing open channels of communication with the Board's President and Board. He has assisted the management team in the development and presentation of their annual work plan which was approved by the Board in early January, and has facilitated dialogue and helped build the relationship between ACCOVI and the SSF.

In respect to development of the microfinance portfolio, the following activities were implemented:

- Provided on-the-job training to micro and small enterprise credit officers at the Cojutepeque and Ilobasco agencies to reinforce the use of best practices in all aspects

related to the credit cycle. This two officers were hired and theoretically trained in the previous quarter;

- Provided support and on-the-job training to the microcredit coordinator in aspects related to supervision and promotion of microcredit program;
- Analyzed, developed and implemented new strategies in order to reduce overall portfolio at risk as part of the continued effort with ACCOVI on this aspect. Special attention was given to the Zacatecoluca agency.

Key Activities for the Next Quarter

- ongoing meetings of the regularization plan committee;
- arrears management, including review of loans to be written off, and monthly review of portfolio classification and reserve requirements;
- approval, dissemination and training of policy and procedures manuals;
- monthly generation, review and certification of reports for the SSF's credit registry;
- ongoing clean-up of accounting practices and account reconciliation;
- hiring Legal Manager, initiating Internal Auditor, revising job descriptions, the organizational chart and functions manual, while building the management team through individual coaching and team-building workshops;
- implementation of the internal auditing plan;
- development, submission and approval of a policy manual and tracking procedures for extraordinary assets;
- development, submission and approval of the interest rate variation policy;
- development of reports and central processing calculations in compliance with non-bank financial intermediary norms as well as development and initiation of a work plan for the SSF to review and test the new software system for compliance and approval. The first visits are scheduled for February 3 and 18.
- Advise and support in developing and implementing an incentive system for all of ACCOVI's credit officers including those for micro and small enterprise. The implementation of this incentive system has been identified as one of the basis for the projected growth of a healthy portfolio during 2003.
- Continue to provide on-the-job training and advise to ACCOVI's microcredit coordinator in areas such as supervision of officers, and healthy continued expansion of the microcredit program.
- Provide support to ACCOVI in the area of procuring new funds for portfolio growth including training and technical assistance on best practices, strategies and marketing of deposits.
- Provide support in establishing relations with commercial and other sources of funds such as commercial banks, BMI and others.

(For more information see Quarterly Report on Earthquake for October – December 2002 for more information on technical assistance provided to ACCOVI).

CAPITALIZATION FUND

FOMIR is pleased to report that the all four partner institutions supported with capitalization funds have disbursed the funds available through the line of credit mechanism. The table below provides a breakdown of level of utilization:

TABLE 1
LEVEL OF UTILIZATION OF THE CAPITALIZATION FUND AS OF December 31, 2002

CAPITALIZATION FUND DETAIL AS OF DECEMBER 2002

Institution	Fund Amount	Credit Amount	Balance to be Disbursed	Line of Credit Outstanding	Portfolio Outstanding	Fund as % of Portfolio	Number of clients	
							total	Rural
ASEI	319,943	319,943	-	319,943	627,413	50.99%	6,671	3,869
AMC (ADEL)	403,491	403,491	-	403,491	2,979,527	13.54%	4,906	4,906
F.J.N.Duarte	440,000	440,000	-	440,000	1,192,330	36.90%	3,256	1,675
Integral(FUSAI)	553,717	553,717	338	553,379	11,504,514	4.81%	15,560	9,448
TOTAL	1,717,151	1,717,151	338	1,716,813	16,303,784	10.53%	30,393	19,898

Amount in US\$ Dollars

In relation to the situation registered at the close of September 2002, the level of fund utilization (line of credit outstanding), increased by more than \$261,000 going from \$1,455,380 in September to \$1,716,813 in December (effectively 99.9% of the total funds). This increase is mirrored by a similar effect in the combined outstanding portfolio of these four participating institutions that went from \$13.5 million in September to \$16.3 million in December, an increase of just over \$2.8 million. As of September, the combined outstanding balance of the four credit lines guaranteed with the capitalization fund, represented 10.77% of the combined outstanding portfolios of the four institutions. As of the end of December, the consolidated balance of the lines was equivalent to 10.53% of the outstanding portfolios, which represents significant leverage and diversification of the institutions' sources of funds.

MARKETING INTELLIGENCE UNIT

During the last quarter of 2002, outreach and financial data was obtained from FOMIR grantees and processed to create the outreach and financial indicators for September 2002.

The fourth issue of year two for *MicroEnfoque* was created, edited and distributed to 34 local institutions. This issue was sent to eight new institutions who are part of the group of 13 new institutions who will share their information to be included in the first issue of 2003. The next issue of *Microenfoque*, will reach 39 institution, each who share their credit supply information under this initiative. FOMIR conducted meetings with general managers and IT coordinators with the eight new institutions to analyze and create the routines needed to obtain the data for these institutions.

At the request of Calpia, the marketing Intelligence Unit produced reports containing specific information on clients' penetration for Soyapango, Sonsonate and La Libertad. Calpia's

branch managers in these agencies use the information to develop their growth projections. A client penetration report was also developed for Adel Morazán as support for their market study.

The Marketing Intelligence Unit also monitored progress on the creation of a contract for INFORED to offer its services to regulated institutions. A local law firm hired by FOMIR created a model contract for presentation to the SSF. INFORED submitted this contract directly to the SSF as requested. However, after receiving and reviewing the contract, the SSF requested that a regulated institution present the contract to the SSF for approval. INFORED is working with Banco Salvadoreño, Banco Agrícola and Banco Tabajadores to submit contracts to the SSF.

Finally, the MIU coordinator attended a training of MICROFIN in Antigua Guatemala. This training will strengthen the knowledge of the coordinator when working with the financial indicators and projections made by the institutions.

INFORMATION TECHNOLOGY INITIATIVE

During the past quarter, the software customization project for the three credit unions has been extremely active and productive. The team includes project managers, programmers and other technical specialists from Top Systems and La Villa, FOMIR/DAI project managers, programmers, users and managers from the three credit unions. In all, dozens of people have been working on this complex project. Following is a summary of progress during the past quarter.

Development, testing and approval of the following modules:

- Savings
- Fixed Deposits
- Share Capital (aportaciones)
- Accounting
- Tellers
- Banks

The clients module was approved during the previous quarter.

Development and testing was conducted on the loan applications and credits modules. These will be finalized in the following quarter. In addition, development of the central processing module began as linked to each of the above mentioned modules.

Work on the data migration process began, including definition of the data and process for migration and testing of client and deposit data. Communication and hardware requirements were reviewed and procurement and installation plans for each cooperative were designed.

Technical and users manuals were drafted, reviewed and tested. An on-site training program for users from the three credit unions was designed. The software was installed at the credit unions and training in an introduction to TOPAZ and the clients and deposits modules began.

During the next quarter (January – March 2003), the following activities are planned:

- Finalization of development, testing and acceptance of the loan applications, credits and reports modules.
- Ongoing users training
- Finalization of users and technical manuals
- Integrated tests and acceptance of the entire program
- Data migration
- Installation of the final system in the three credit unions headquarters and branches
- Developing a plan with the Superintendency of the Financial System (SSF) for review and acceptance of the system as part of ACCOVI's regularization plan

The final phases of running the system in parallel and full-scale production are expected to be completed during the second quarter of 2003 (April-June).

In addition, the Information Technology Unit provided assistance to FUSAI in preparing a detailed branch office communication upgrade plan that included a time frame for installation of new TOPAZ software.

For ASEI, the IT unit defined and procured new computer hardware, conducted an assessment of communication infrastructure in new branches, prepared for the installation of the new equipment, (cable, security, connections, etc) and finally installed the equipment.

TRAINING ACTIVITIES

The first phase of the **Leadership and Management Training Program** was successfully completed on October 5th, 2002. Twenty-seven participants from 10 institutions assisted the three sessions planned for this training. The staff from MFIs that participated in this activity are satisfied with the topics included and the support material provided. The majority of participants have taken the ideas discussed and developed training programs for personnel in their own institutions.

On October 2, 2002 FOMIR facilitated a workshop for partner financial institutions that serve the Salvadoran microenterprise market in order to identify and prioritize trends likely to impact the **microfinance industry** within the next three to five years. The workshop, facilitated by DAI staff member Mr. Nate Bourns, was a preliminary step towards determining whether there is cause for competing institutions to work together on specific industry-level issues they are likely to face in the future. USAID was provided with a copy of the seminar report. A follow-up seminar has been scheduled for January 30 and will be

conducted with representatives of the 11 institutions supported by FOMIR and other industry stakeholders to discuss the identified priority areas for strengthening the sector as a whole.

Other activities such as **credit training and field support for loan officers** of FOMIR/DAI MFIs offering individual and solidarity credit products (CAM and Credit Unions) were carried out by DAI consultant, Ms. Claudia Ordoñez.

An **Interest Rate Study** to provide an analysis on the average and range of the various credit products offer by FOMIR/DAI MFIs was developed by Mr. Steve MacQueen. A meeting was held on November 11 to discuss the results of the study and provide a copy of the final report. As follow-up to the Interest Rate Study, a training on this subject will be delivered in one half-day session. Two members of the project's technical staff will provide General, Credit and Financial Managers the techniques to calculate the costs of credits to clients and effective return on diverse product portfolios, taking into consideration the cost of delinquency.

To maximize training resources and impact during the final months of the project, FOMIR/DAI developed a **comprehensive training program** for the first semester of 2003 (see attachment for schedule of activities). This program will be offered to all FOMIR/DAI grantees. In addition to the schedule, trainers were selected and programs developed to be kicked off in January 2003. Activities included in this initiative are:

- **Training of Trainers.** The training of trainers will be carried out in one two-day session to provide adult training techniques, followed by two three-day sessions in specific microcredit technologies and development of customized training plans for credit staff. These activities will be carried out during January and February. This training will be developed with the assistance of Local and International consultants experienced in adult training, curriculum development and micro-credit technologies. The training of trainers course will be offered to credit managers, supervisors, branch managers and senior loan officers. The objective of the course is to develop in-house training capacity for credit personnel in all the MFIs.
- **The technical courses** will be developed in one to five day sessions from February to May. Local and international consultants and local companies already identified will be in charge of delivering these courses. These courses will be offered to Senior and Middle Management such as General Managers, Credit Managers, Finance and Administrative Managers, Supervisors, Coordinators and Branch Managers of FOMIR/DAI MFIs. Courses include Human Resource Administration; Interest Rates; Financial Management; and an Overview to the Regularization Process and Requirements.
- **Study Tour.** The culmination of the training program will be a week-long Study Tour for approximately 20 participants who have successfully completed the Middle Management training program. The trip is scheduled for June, will take place in Bolivia and will include technical seminars and visits to microfinance institutions.

To support the development and strengthening of management personnel from the project MFIs, assistance will be provided to those institutions that request to participate in the Microfinance Training Program that BMI is developing with ISEADE/FEPADE and COLCAMI. This training program can be taken as a complement to the training activities that the project is carrying out. FOMIR/DAI will provide limited scholarships for select participants that complete the requirements established by the organizers and FOMIR/DAI.

Other training activities for individual MFIs will be coordinated in order to respond to the particular needs of FOMIR/DAI MFIs. For the next quarter, these include follow-up training with CAM's credit personnel on **loan analysis and resolution** to strengthen the practical application of solidarity group and individual credit technologies as well as **arrears management and collections** training for staff from Banco Agrícola.

TRAINING ACTIVITY FOR THE QUARTER

Date	Title	Male	Female	Total	Location	Recipients
11/24/02 – 11/24/02	Non-Banking Financial Intermediaries Law	41	33	74	ACCOVI's main office	ACCOVI's personnel from all branches
11/21/02 – 11/23/02	Credit Analysis Methodology	2	15	17	Hotel Alameda	CAM's credit officers
10/10/02 – 10/11/02	First Central American Microfinance Conference	3	7	10	Hotel Intercontinental - Nicaragua	Middle Management Participants from ACCOVI, ADEL, CAM, FJND, ASEI, FUSAI
10/04/02 – 10/05/02	Leadership Seminar "C"	16	11	27	Las Cabañas de Apaneca	FOMIR/DAI MFIs Middle Management
10/02/02 – 10/02/02	MF Industry Activities	8	5	13	Hotel Princess, SS	FOMIR/DAI MFIs Middle Management

SUMMARY OF CONSULTING ACTIVITY

CONSULTANT	Period	ASSIGNMENT
Claudia Ordoñez	09/15 – 10/26	TA Credit Unions and Banco Agrícola
Nathanael Bourns	09/26 – 10/05	Preparation of a seminar for grantees
Armando Muriel	10/14 – 10/22	TA for regularization process ADEL
Patrick Dunn	10/29 – 11/09	Administrative assistance to FOMIR/DAI
Gabor Simon	10/21 – 11/09	Follow-up software process for credit unions
Juan Buchenau	12/04 – 12/13	Follow-up on ag. Loans, creation of mgmt reports for CALPIA
Claudia Ordoñez	11/10 – 12/14	TA for ACCOVI and Training for FOMIR grantees
Robert Dressen	11/03 – 11/07	Management review of FOMIR/DAI project
Juan Carlos Díaz	12/01 – 12/14	TA and training to FJND's personnel
Gabor Simon	12/15 – 12/21	TA to Credit Unions-Customization SW
Nancy Natilson	12/15 – 12/21	Revise loan officers targets and incentive system for BA

STATUS OF PARTNER INSTITUTIONS AND THE MICROFINANCE INDUSTRY IN SEPTEMBER 2003

Background

When USAID designed the FOMIR/DAI project, a combination of factors impeded the supply of finance to microenterprises in rural areas. These included an underdeveloped institutional infrastructure; market inefficiency created by government support to weak public sector institutions that permitted them to lend at subsidized interest rates and achieve poor repayment performance; difficulties in stimulating the rural economy - and thereby demand for financial services; and ongoing security problems in rural areas.

The objective of the FOMIR/DAI project has been to provide technical assistance to financial institutions serving the rural microenterprise sector to help those institutions attain self-sustainability by improving financial performance while expanding and deepening coverage of financial services to rural, poverty level microentrepreneurs. Rural finance clients prefer options in accessibility, terms and conditions, and institutional type. Ideally, these options would be available in a competitive environment, but USAID realized that much work needed to be done before competition for rural clients would occur. Designed as an institutional development initiative, USAID and FOMIR/DAI program managers recognized the need to attack the constraints associated with providing sustainable rural financial services by:

- Expanding the number and type of institutions serving the rural microfinance sector.
- Expanding the number of points of service providing services to the microfinance sector.
- Expanding the types of products offered to the rural microfinance sector.

Four years after commencement of the FOMIR/DAI Project, rural families in El Salvador now have significantly more options to obtain financial services, both in terms of varying products and institutions. As of the end of December, 94,326 clients are served by FOMIR/DAI's 11 partner institutions, 78% of total clients are rural. Over the life of the project, partner institutions have increased rural clients by 103% (as compared to a 3% decrease in urban clients for the 11 partner institutions).

Present Situation

The landscape for rural finance in El Salvador has changed dramatically over the last four years. Having built a network of rural financial institutions, the challenge for the future is to promote competitiveness in the rural finance industry. During the next few years, USAID should outline new initiatives that build on the recent success. Local MFIs still will require additional support in their effort to build sustainable and regulated institutions. Industry building initiatives must be developed that include working with the Superintendent of the

Financial System, review of laws related to financial intermediaries, use of credit information and guarantees, as well as , strengthening private sector support in the microfinance industry - from audit firms, IT companies or training firms, and credit bureaus for example. USAID must also establish a framework for expanding the flow of information to create more healthy competition and satisfaction among rural populations.

Based on its approved work plan, FOMIR/DAI is scheduled to complete assistance to grantee institutions at the end of June. Due to the limited timeframe, it is important to clarify for USAID the “projected status” of the partner institutions when FOMIR assistance concludes in five months. The following section provides FOMIR’s projection of the status of the grantee institution at the end (June 2003) of the Rural Finance Project –FOMIR/DAI. Included in this section are:

- estimates on outreach (including number of rural clients, number of credit officers, types of products offered and numbers of rural points of service),
- status of new systems,
- MFI intentions to regulate,
- MFI assistance after FOMIR
- Support to develop a competitive microfinance industry.

Outreach

The objective of the Rural Financial Markets Project has been to promote sustainable growth of financial services to rural micro enterprise sector. Towards this objective, USAID and FOMIR appreciate the fact that healthy portfolio development requires managed growth and substantial investment in capacity-building and systems that are most likely to contribute to growth in the long-term.

FOMIR is on pace to surpass all of its aggregate outreach targets for September 2003, despite disruption to MFI operations caused by the massive earthquakes of 2001. Still, despite solid aggregate outreach growth indicators, not all FOMIR grantees have met their individual outreach targets.

As of December 31, 2002, four of the eleven institutions have achieved the targets of outreach agreed between each MFI and the USAID when grant agreements were extended for the final year of the project. Of the remaining, seven institutions, FOMIR believes that four institutions are in a good position to achieve the level of outreach projected. Based on their outreach in December, FOMIR estimates that Banco Agrícola, Banco Salvadoreño and CAM will not achieve their projected outreach. FOMIR believes that although the banks might not meet their end of project targets, their portfolios will grown significantly during the year and remain committed to the sector. Bank management will demand increased productivity to justify their investment in 40 new credit officers. In respect to CAM, FOMIR believes that senior management of the institution has taken important steps to reverse the trends related to client dropout and that as a result will continue to regain market share lost during the previous 18 months.

The table on the following page provides information on the targets for each MFI for March and June of 2003 along with results as of the end of December 2002. Please note that the number of clients in the table represent the actual or projected number of total rural clients in the portfolio and does not represent net increase in new rural client.

Rural Active Clients Projections by Institution				
Institutions	Actual as of Dec-2002	Target for March 2003	Target for June 2003	Rural Clients Required
<i>Partner Institutions that have reached their target....</i>				
FUSAI	9,448	9,085	9,163	-
Financiera Calpiá	8,053	3,662	4,340	-
ASEI	3,869	3,665	3,791	-
Fundación Duarte	1,675	1,355	1,425	-
<i>Partner Institutions that have yet to reach their target....</i>				
Acacsemersa	1,301	1,300	1,500	199
Adel Morazán	4,906	4,750	5,200	294
Accovi	1,003	1,100	1,350	347
Acacu	931	1,100	1,300	369
<i>Banco Agrícola</i>	1,584	2,143	2,372	788
Banco Salvadoreño	1,228	1,893	2,500	1,272
CAM	13,742	15,000	16,500	2,758
Totals	47,740	45,053	49,441	6,027

FOMIR has been very successful in meeting its contract goals. Still the project is pushing to achieve the broadest and deepest outreach possible. FOMIR understands that the factors that influence growth of portfolio and client outreach include points of service, field staff and products. During the remaining five months of technical assistance to partner institutions, FOMIR will stress the importance of increased efficient use of these key resources.

Points of Service. Since joining the project, the 11 partner MFI's have opened 43 points of microfinance services throughout the country bringing the total number of rural points of service to 72. The table below shows the distribution across the country.

Listing of Total and New Points of Service by Department (In order of most new points of service)		
La Libertad: 9 (7 new)	Ahuachapan: 4 (4 new)	Sonsonate: 5 (1 new)
Santa Ana 11: (6 new)	Chalatenango 3 (3 new)	Morazan 2 (1 new)
San Miguel: 9 (5 new)	Cabanas: 4 (3 new)	San Salvador 1: (1 new)
La Union: 5 (4 new)	Cuscatlan: 6 (2 new)	San Vicente: 1 (0 new)
Usulután: 7 (4 new)	La Paz: 5 (2 new)	Total: 72 (43)

It should be noted that 38, or 53%, of these points of service are located in the major municipalities outside San Salvador: San Miguel and Santa Ana each have eight (16 total), Usulután and Cojutepeque each have six (12 total), and, Zacatecoluca and Sonsonate each have five (10 total).

Clearly, the project has been successful in establishing a broader network of access points that supply finance to the rural poor. Partner MFIs have expressed broad agreement that they are facing increased competition for credit services in the primary and secondary urban markets (read: larger municipalities). FOMIR and partner MFI believe that there may still be significant demand not only for new credit, savings and other financial and fee-based products in presently well-served markets, but also for a full array of services in areas outside the urban centers within rural Departments. Strong rural market response to Calpia's new agriculture/microenterprise product line suggests unmet demand in the sector. The challenge facing partner MFIs is no longer where and when to open new points of service, but how to use the current base of operations to expand service to rural clients (farm families) who reside and engage in economic activities outside the urban centers.

Field Officers. As a result of USAID assistance, the 11 partner institutions have added 250 credit officers/promoters bringing the total number of to 444 field officers. Given that both Banco Agrícola and Banco Salvadoreño have initiated processes of merging micro and small business portfolios, FOMIR anticipates that by the end of the project the number of loan officers serving this sector will climb to 459. Six of the eleven MFIs have loan officers-to-client ratios of less than 150 clients, a low figure by international best practice standards. During the last three years, the number of field officers among partner institutions has grown by 128%. In the next few years, FOMIR partner institutions should focus on improving efficiency, specifically increasing the number of clients per loan officer. FOMIR believes that growth in number of credit officers will be limited during the next few years.

Products. Competition often breeds innovation. In efforts to expand their rural finance portfolios, all of FOMIR/DAI's partner institutions have confronted the need to develop and introduce new products. As a result of the USAID support, partner institutions offer a variety of credit products, including: individual, solidarity groups, and village bank working capital loan products; seasonal loans; automatic loans; loans for farming households; housing loans; reconstruction loans; and small business loans. The institutions also expanded savings, transfer and remittance products and services specifically for rural families.

Still more work needs to be done in deepening the supply of finance to poor rural families. Whereas microfinance-lending techniques have been well developed over the past several years, most loans tend to be for commerce. Future support should build on the successful product development efforts under way with Calpia to support increased innovations in rural financial product development by the other partner MFIs. This will contribute directly to the Mission's focus on alleviating rural poverty.

In line with future emphasis on trade promotion, product development assistance to expand competition for small business loans among partner MFIs will also be required. Credit technology used for small business lending differs from techniques used to finance microenterprise. Loans to small businesses tend to be expensive to make and administer. They also are of a higher (or "different") risk profile than micro or large loans. Finally, small enterprises require more diverse and sophisticated financial services, including letters of credit and trade finance. FOMIR believes that regulated and non-regulated financial institutions, as well as small business owners, would benefit from increased assistance in this

area. Not only will financial institutions need to have incentives to stimulate increased lending to the small business market, but they will also require technical assistance and some risk management tools to develop or strengthen this line of business. The benefits of supporting the small business sector would be measurable in terms of economic growth, increased employment and increased regional trade.

Status of New Systems

Systems and policies related to credit management operations have been firmly established in all eleven MFIs assisted by the project. Final revisions (based on lessons learned) will be completed by the end of the FOMIR project. Successful institutions are those that can identify changes in their internal and external operating environments and change accordingly. Therefore, those institutions able to manage ongoing credit risk and growth will do so only if their credit management systems are able to adapt and evolve.

During the past two years, FOMIR has systematically reviewed the audited financial statements of all non-bank grantees and provided MFIs and their auditors with specific recommendations on how to strengthen their external audit process. FOMIR also met internal audit departments of the two banks that work with the project to discuss internal audit procedures and nuances for auditing the microfinance portfolio. FOMIR will review MFI audits for 2002 in April to ensure that new process have been adopted. With two NGOs have established specialized microfinance companies and five institutions having adapted and adopted the Superintendency's chart of accounts, accounting standards and information have improved. However, additional work is required on internal audit, internal controls, and accounting policies for regulated institutions.

Stronger human resource systems have been developed and installed in 10 of the 11 MFI (Calpia required no assistance in this area). These systems include revised organizational charts, clearer and more detailed position description and new or improved incentive schemes. A program to build internal credit training capacity is currently underway in all 11 MFIs and a human resources administration training program is scheduled for April 2003. A comprehensive organizational development program is underway at ACCOVI and a reorganization program and management transition plan is planned for Integral during the final months of the project. Additional work on compensation and incentive schemes, career development, and revised organizational charts including new management positions and departments for those institutions undergoing regulation will be required.

During the past four years, all eleven MFI's supported by the project will have strengthened or acquired new information and communications technology (ICT) systems. Eight MFIs were provided with computer equipment based on FOMIR developed ITC-upgrade plans. Six MFIs purchased new financial service software systems from outside vendors. Four (including the banks) modified and or upgraded existing system to generate improved management reports. One (painstakingly) developed financial service software in house.

Although significant progress has been made, it would be misleading to suggest that each of these systems would be firmly established, fully functional and used to its potential in each of

the MFIs at the end of the project. Even the two commercial banks and Calpia continue to modify their financial reporting systems to produce required management and regulation reports. The three credit unions and Integral will just have completed installation as the project closes. As financial institutions expand coverage and offer new products, and some move toward regulation by the Superintendency of the Financial System, the MFIs will require additional technical assistance in the areas of information and communication technology.

When MFIs are having to use their available resources to manage or grow their institutions, there is often a shortage of time to keep pace with latest developments and funds for new technologies. For both of these reasons, donors have a role to play in introducing new ideas and technologies and facilitating their implementation. A few institutions have begun to provide credit card or smart cards to the microenterprise sector. Others are considering the use of hand held devices, loan application, analysis and credit scoring technologies to expand geographic outreach and improve efficiency. All the MFIs are grappling with communication issues between branches. Future support in this area will benefit MFIs and their clients with expanded rural coverage and lower cost of servicing the sector.

MFI Intentions to Regulate

Financiera Calpia is due to complete the transition to Banco Calpia by the end of March 2003. Among the other non-bank MFI's served by the project, only ACCOVI is currently engaged in a process with the Superintendent to become regulated. As stated, FOMIR/DAI believes the additional value of current USAID support to ACCOVI is in the learning process that can be applied to other institutions planning to apply for a license from the SSF. As the first credit union to undertake the regularization process, ACCOVI is a pioneer and victim of the sometime unclear norms and procedures.

Over the next year, AMC and Integral will review the regulation process over the next year before taking final decisions pertaining to their future legal status. Other MFIs still focused on developing stronger portfolios will take 1-2 years to make their decision. All understand the need to improve understanding of the laws pertaining to financial institutions and to establish self-regulation mechanisms. FOMIR's short-term strategy is to generate and share knowledge of the regulatory process, drawing upon the experience and expectations of regulated institutions, institutions in the process of becoming regulated as well as the knowledge of specialized consultants and improved dialogue with Superintendency.

Over the next two years, donors can contribute significantly to the sustainability of the micro and small business finance industry by providing direct technical assistance to institutions considering change in status and those institutions who are applying for regulated status. It also should support the Superintendency to complete the norms and procedures for non-bank financial intermediaries, review legislation and norms pertaining to microfinance operations throughout the financial system, and build the supervisory capacity and familiarity with microfinance of staff within the Superintendency.

MFI Assistance Post FOMIR

By the end of the FOMIR/DAI contract, there will be a core group of sustainable, specialized MFIs and commercial banks offering financial services to micro enterprises throughout the country. The momentum will have been established for their continued growth and expansion in terms of number of clients, products, and regional coverage. To continue to expand outreach to the rural poor and re-establish the rural sector in El Salvador, MFIs will require the following types of assistance:

- To expand service to rural clients (farm families) who reside and engage in economic activities outside the urban centers,
- To develop innovative, rural financial products that will deepen the supply of credit to rural families,
- To expand competition for small business loans among partner MFIs,
- To strengthen and/or adopt new information and communication technologies that will benefit MFIs and their clients with expanded rural coverage and lower cost of servicing the sector,
- To provide direct technical assistance to institution considering change in status and those institutions who are applying for regulated status,
- To assist MFIs to measure and improve their efficiency to improve profitability and reduce costs to microentrepreneurs
- To develop board and governance capacity and structure for specialized (and in some cases regulated and for-profit) MFIs..

Support to Develop a Competitive Microfinance Industry

Due to various activities undertaken by USAID during the last five years, the basic foundation stones have been laid for the nascent microfinance industry in El Salvador. On January 30, 2003 FOMIR facilitated a workshop for partner financial institutions and other actors in the microfinance industry in El Salvador. The *Associativeness* Workshop, as it was called, was a follow-up workshop to one that FOMIR facilitated in October 2002 in which participants identified and prioritized trends likely to impact the microfinance industry within the next three to five years. The term *associativeness* in the workshop title is meant to convey the notion that institutions can increase their individual competitiveness, and that of the industry, through collective action.

Although still primarily focused on issues related to their own institutional development, there is clear evidence that MFI managers and directors are recognizing the value of collective action on certain issues relevant to the industry. Because FOMIR's partner institutions and other players in the microfinance industry have recognized value in collective action, FOMIR will continue to coordinate the various activities, always with the understanding that local institutions must lead individual initiatives based on where they see value in working together.

As a result, donors and government should consider shifting their emphasis from initiatives that focus on building financial institutions to initiatives that build the microfinance industry. This change of focus and redistribution of priorities reflects a natural evolution in the development of the informal sector and the financial institutions that serve them. The driving force will need to **become *Building a Competitive MicroFinance Industry*** with a goal of increasing productivity and efficiency, stimulating innovation and facilitating commercialization. The principle objectives would be:

- to provide direct support to MFIs positioned to demonstrate rapid advancement in productivity and efficiency in serving the rural financial sector,
- to develop sustainable mechanisms for the gathering and dissemination of information critical to the health of the microfinance industry,
- to institute legal reforms that promote open competition,
- to strengthen and grow the existing key microfinance support industries, and
- to support the development of microfinance trade associations that provide a formal voice to the sector.

Support to the Microfinance Industry could take the following form:

1. As discussed, support should be provided to a limited number of MFIs well positioned to expand outreach rapidly, those MFIs with the capacity to manage innovation in products or delivery mechanism and those MFIs serious about regulation.
2. The main challenge facing the microfinance industry is the need to increase access to sector information. Significant strides have been made to improve quality and increase competition among the local credit bureaus, but assistance is still needed to ensure sustainability of the services to local MFIs. Strategically, ensuring that there are well functioning credit bureaus operating within a clear and effective legal framework is a worthwhile undertaking as experience in other countries has proven. The existence of reliable credit information is a key factor in exponentially increasing access to credit for the masses.

FOMIR's *MicroEnfoque* provides critical information on supply information but the question remain on the capacity of a local institutions to assume and expand the data gathering, analysis and information generating aspects of the publication.

At present there appears to be no clear strategy for ongoing measurement of microfinance demand. Partner MFIs have identified four key groups of stakeholders all of which have an interest in improving the quality of information available on the sector: financial institutions (for market studies), government (to launch programs in the sector), donors and international organizations (to orient assistance and programming), and clients (since improved understanding of their needs may lead to improved services). Resources should be provided to support the development and application of a framework for expanding the flow of information to create more competition and satisfaction among rural populations. The framework would define information requirements, sources, distribution

channels and frequency, and would provide a basis for coordination among public sector and private information agencies.

3. FOMIR/DAI recommends that USAID work with government and local regulatory agencies to identify areas within existing legislation that inhibit open competition and innovation among financial institution serving the sector. For example USAID could explore alternative interpretations of the Banking Secrecy Law or required modifications to said law to ensure equal access to the credit bureau data, a basic tool in promoting access to microfinance for clients and reducing the institution's risk and cost of microfinance services.
4. Access to high quality inputs is critical to the success of all industries in a competitive environment. Technical assistance to strengthen MFI support institutions is critical to the development of a sustainable sector. Industry building initiatives must be developed that include strengthening private sector support in the microfinance industry - from audit firms, IT companies or training firms, for example. As the number of MFIs grow and as others grow larger, there will be an increasing need for more local service providers such as accountants, information technology specialists, market survey firms, etc. Those that already exist will need to be kept current on new methods and technologies. In that light, donors can play an important role in providing one-off assistance to these entities. A clear example would be technical assistance to local universities and/or training institutes interested in developing appropriate coursework to service the human resource needs of the microfinance industry.
5. Finally, ongoing support to develop a microfinance industry association would have obvious benefits. During the last year, ASOMI has emerged as a leading candidate to speak on behalf of the industry. Still, not all members of the MFI community are welcome. One association might not provide the best voice to an industry that includes: banks, credit unions, cajas, and non-governmental organizations. Donors can play a key role in promoting the development of a unifying body that provides clear information on the sector and its concerns, and the ability to influence key decision makers with the ability to impact the sector.

FINANCIAL AND ADMINISTRATIVE INFORMATION

LEVEL OF EFFORT

The following table presents the level of effort provided to the project through December 31, 2002, by the core FOMIR/DAI team and approved short-term expatriate and local consultancies. The "Contract-Approved LOE" is based on the actual starting dates of the key advisors, the additional of a Senior Microfinance Specialist (as of July 2001 amendment), and the contract termination date of September 30, 2003.

Type	Contract Approves LOE	Actual to Date	Remaining in Project
Chief of Party (DAI Expatriate)	57	51	6
Deputy Chief of Party	40	34	6
Financial Analyst	58	49	9
Microenterprise Specialist	35	35	0
Senior Microfinance Specialist	15	15	0

As part of the demobilization plan, DAI will request and increase in the level of effort for the Chief of Party for three months, allowing the COP to complete the contract.

FINANCIAL INFORMATION

As of December 31, 2002, the RFM project was approximately 85% percent completed. As of that date, FOMIR/DAI had expensed approximately 88% of the total project funds available.

Budget and Expenditure Summary 11/03/98 – 12/31/02 (Amounts in 000s)³

Category	Budget Amount	Cumulative Spent	Remaining Amount	% of Budget Spent
Grants Administration	\$3,577,220	\$2,934,530	\$642,690	82%
Commodities and Equipment	\$118,626	\$70,169	\$48,457	59%
Grant Funds	\$9,004,856	\$8,168,979	\$835,877	91%
Fixed Fee	\$427,264	\$381,475	\$45,789	89%
Total Budget	\$13,127,966	\$11,555,153	\$1,572,813	88%

³ Items may not add to totals due to rounding.

COST SHARING CONTRIBUTION

The counterpart contribution report is found on the following page.

SUMMARY TABLES AND GRAPHS OF KEY INDICATORS FOR THE PROJECT